

# Henry & Cooper Reviews –*What it means for you and your business!*

## HENRY REVIEW

On Sunday, 2 May 2010 the government released its response to the Henry Review's recommendations. Although the Henry Review contained many recommendations (138 to be exact) to reform the Australian Tax system, the government's report *Stronger-Fairer-Simpler, A tax plan for reform* only deals with less than 50 of the recommendations. A summary of the most relevant recommendations and how they apply if introduced, is contained below:

### 1. Business Taxation

- **Reduction in the Company Tax rate** – the company tax rate to be reduced to 28%.

The timing of the reduction will depend on whether your company qualifies as an eligible small business. There is no indication by the Government papers as to what entities will qualify as eligible small business entities however we assume the eligibility criteria will be the same as those for the current Small Business Entity concessions.

The reduction will be done in two phases, commencing from the 2013-14 income year.

Income Year	Corporate Tax Rate (%)
2013-14	29%
2014-15	28%

*Eligible Small Business companies will move straight to the 28% rate with effect from the 2012-13 income year, one year before the phase-in for other companies.*

This measure will reduce the company tax payable for all Australian companies.

- **Small business asset write-off** – the existing capital allowance concessions available for small businesses will be expanded to allow:
  - Immediate write-off of assets valued at under \$5,000 (up from the current \$1,000); and
  - Write-off all other assets (above \$5,000) in a single depreciation pool at a rate of 30% (currently there are 2 pools with varied depreciations rates)

This measure will commence from 1 July 2012 and will mean that small business will be able to access higher depreciation deductions to reduce their taxable income.

## 2. Superannuation

- **Superannuation Guarantee Rate & Age Limit increased** –the superannuation guarantee rate will increase from 9% to 12% phasing in from 1 July 2013 and increasing in increments of 0.25% in the first two years and 0.5% thereafter up to 12% as per below.

<b>Income Year</b>	<b>Super Guarantee Rate (%)</b>
2013-14	9.25%
2014-15	9.50%
2015-16	10%
2016-17	10.5%
2017-18	11%
2018-19	11.5%
2019-20	12%

To coincide with the increased super guarantee rate effective from 1 July 2013 the superannuation guarantee age limit will be increased from 70 to 75.

The increased super guarantee rate and age limit will allow employees to accumulate higher levels of superannuation through out their working lives.

It also provides employers with increased operating costs relating to higher compulsory superannuation contributions on behalf of their employees. The increased superannuation needs to be considered when reviewing employee wages/salaries.

- **Low Income Earners Government Contribution** –the government will make a contribution of up to \$500 to the superannuation accounts of workers with a taxable income of up to \$37,000. This strategy effectively refunds the 15% contributions tax paid by the superannuation fund on the super guarantee contribution made by employers.

The logic behind this is that there is no tax benefit to a low income person earning less than \$37k (after increase in tax thresholds from 2013) having their employer contribute extra to super in lieu of wages. This is because they pay 15% tax on wages which is the same tax that would be paid by the super fund on employer super contributions.

This will result in additional superannuation savings for individuals eligible for this contribution.

- **Concessional Contributions Caps for over 50's to continue** –the current annual transitional contributions cap of \$50,000 for individuals aged 50 or over was due to end on 30 June 2012. Under this measure the increased contributions cap will be permanently extended for individuals aged 50 and over but only for those who have total superannuation balances of less than \$500,000.

This measure will allow individuals who are approaching retirement age to increase their superannuation contributions however it is

disappointing to see that it has been limited to individuals with small superannuation balances. Also it is unclear at this stage how and when the \$500,000 will be measured.

### 3. Resource Super Profits Tax (RSPT)

- **A 40% tax on profits made from the exploitation of Australia's non-renewable resources is to be introduced from the 2012-13 year** – the RSPT will apply to all legal entities (companies, partnerships and trust) directly involved in natural resource projects. This measure has a significant impact for individual shareholders and superannuation funds that hold shares in large companies involved in mining etc such as BHP & Rio Tinto. As the RSPT is an additional tax paid out of profits above the risk free bond rate made by the company it will reduce the company's profitability and shareholder wealth which will have a negative effect on the listed share price and reduce the portfolio value of investors.

There were many recommendations made by the Henry review that were either rejected or deferred for further consultation by the government a brief summary of the key recommendations rejected or deferred is contained below.

#### **Rejected Recommendations**

- Reducing the Capital Gains Tax Discount
- Removing the Pre-CGT status of assets
- Limiting negative gearing deductions
- Removing the benefits of the dividend imputation system
- Including the family home in means testing calculations
- Introducing land tax on the family home
- Removing the luxury car tax
- Removing the Medicare levy

#### **Recommendations deferred for further consultation**

- Changing the tax rate to have three income bands  
-up to \$25,000 (tax-free),  
-\$25,001 to \$180,000 (taxed at 35%); and  
-\$180,000 plus (taxed at 45%)
- Taxing Fringe Benefits in the hands of employees at their marginal tax rates
- Tax levied on superannuation fund earnings to be reduced to 7.5% with no capital gains tax discount available to superannuation funds
- The small business turnover test to be increased from \$2m to \$5m

Please note that the introduction of the above recommendations is subject to approval through Parliament and the outcome of the election.

If you have any questions or would like any further details regarding the Henry Review outcomes & recommendations please feel free to contact our team at dmca as we would be happy to assist you.